American lessons: Implementing fair use in Australia

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This article discusses the recent Australian Law Reform Commission report proposing a fair use defence to copyright infringement in Australia. It examines the experience of fair use cases in the United States and draws three lessons from the jurisprudential history. First, it suggests that decisions in fair use can only really be understood within a theoretical framework, and that unless we import that framework into Australia any fair use defence will not work as expected. Secondly, the article argues that the area where fair use jurisprudence appears to be most helpful, in dealing with "transformative" works, is actually much more limited than outsiders to the US would expect. And finally, it suggests that any implementation of a factor related to market substitution should take account of the gaming of the system that has gone on in the US.

> "The structure and interpretation of s 107 of the United States *Copyright Act 1976* provides an appropriate model for an Australian fair use exception, in providing a broad, flexible standard based on fairness factors."
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> – Australian Law Reform Commission.[1]

> "The life of the law has not been logic: it has been experience."
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> – Oliver Wendell Holmes Jr.[2]

The Australian Law Reform Commission (ALRC) has recently handed down its report entitled *Copyright and the Digital Economy*[3] which, to the surprise of some, has recommended the introduction of a US-style fair use defence to copyright infringement, to replace the existing fair dealing provisions in the Australian *Copyright Act 1968* (Cth).[4] The report provides an extremely thorough account of the justifications for adopting a factor-based approach for fair use, such as why its introduction would not conflict with the "dreaded" three-step test, and why the proposed change should not strike fear into the hearts of the content industry. The report also provides a proposed structure for legislative reform, suggesting that Australia follows the US law closely, along with the addition of some illustrative examples.[5] The report carefully reviews each of the four fair use factors, and provides some guidance as to interpretation of the four factors, and considers whether the Australian judicature can adopt the approach of the US courts in relation to each of them, concluding in general that it can.[6]

It is clear that fair use is a better alternative than fair dealing, and it is hoped that the ALRC's proposal is implemented. But the actual lived practice of fair use in the US is significantly different

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[1] ALRC, *Copyright and the Digital Economy*, Report No 122 (November 2013) p 123 (ALRC Final Report).

[2] Anonymous [Holmes Jr OW], "Book Notices" (1880) 14 Am L Rev 233 at 234; Holmes Jr OW, *The Common Law* (Little, Brown & Co, 1881). For an explication of the phrase, see Hawkins B, "The Life of Law: What Holmes Meant" (2012) 33 Whittier L Rev 323.

[3] ALRC Final Report, n 1.

[4] ALRC Final Report, n 1, pp 87-160.

[5] ALRC Final Report, n 1, p 124.

[6] ALRC Final Report, n 1, pp 129-141.

from the widely held understanding of how it should work. This article examines how we should implement fair use in Australia by focusing on how courts in the US have actually gone about deciding fair use cases. As Holmes' quote references, the life of the common law is in the myriad decisions that make up the system. The article therefore discusses the limitations of the judicial decisions in this area. The guiding strategy is to focus on how the US courts have approached fair use in practice and to emphasise where the judicial practice diverges from what would be expected.

There are three main points made out in the sections that follow. First, that decisions in fair use can only really be understood within a theoretical framework, and that unless we import that framework any fair use defence will not work as expected in Australia. Secondly, that the area where fair use jurisprudence appears to be most helpful, in dealing with "transformative" works, is actually much more limited than outsiders to the US would expect. And finally, that any implementation of a factor related to market substitution should take account of the manipulation of the system that has gone on in the US.

The article begins by confronting a theory of fair use.

THEORY

It is worth noting initially what the *Copyright Act 1976* (US) says. Title 17 of the USC is much simpler than the Australian *Copyright Act* and all of the rights of copyright holders are granted in § 106 and § 106A, while the defences and exceptions are contained in §§ 107-121. The first and most important defence is that of fair use, which is found in § 107:

> **§ 107 Limitations on exclusive rights: Fair use**
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> Notwithstanding the provisions of sections 106 and 106A the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –
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> 1. the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
> 2. the nature of the copyrighted work;
> 3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
> 4. the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

The four fair use factors are, of course, open-ended and it is within the discretion of the court to weigh them according to its own understanding of what types of use might be fair within the specific context of the defendant's actions. As the ALRC explains, this gives rise to concerns about certainty of outcome, but within the US system this is not that much of a problem. Numerous commentators have noted that there is broad agreement about certain sorts of uses,[7] and courts routinely find fair use in situations where the use was made for making, rebutting or commenting on slurs – for example, *Hustler Magazine Inc v Moral Majority Inc*,[8] *Savage v Council on American-Islamic Relations Inc*[9] – engaging in scholarly use – *Sundeman v Seajay Society*[10] – and other uses that are related to the exercise of free speech within US society. Cases that fit within these sorts of uses can be thought of as the "core" of the fair use doctrine, where there is just no arguable issue at trial, as opposed to the "penumbra" where significant uncertainty exists and appeal courts are likely to come up with wildly

[7] See, for example, Beebe B, "An Empirical Study of United States Copyright Fair Use Opinions, 1978-2005" (2008) 156 U Pa L Rev 549 at 574-575; Samuelson P, "Unbundling Fair Uses" (2009) 77 Fordham L Rev 2537 at 2541; Sag M, "Predicting Fair Use" (2012) 73 Ohio St LJ 47; Madison MJ, "A Pattern-Oriented Approach to Fair Use" (2004) 45 Wm & Mary L Rev 1525.

[8] *Hustler Magazine Inc v Moral Majority Inc* 796 F 2d 1148 at 1153 (9th Cir, 1986).

[9] *Savage v Council on American-Islamic Relations Inc*, No C 07-6076 SI, 2008 US Dist LEXIS 60545 (ND Cal, 2008).

[10] *Sundeman v Seajay Society* 142 F 3d 194 (4th Cir, 1998).

divergent answers.[11] One of the easiest ways to understand the "core" of fair use is to ask whether it fits within the enumerated examples that are provided in the preamble of § 107, which says that "fair use … for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright". These categories are, of course, very similar to the existing Australian fair dealing exceptions.

To deal with concerns about certainty of outcome in Australia in the event that we adopt fair use, the ALRC sensibly proposes that we introduce in the legislation some illustrative examples that will guide the courts, as well as suggesting that courts consider the experience of other court systems and industry codes of practice.[12] Although these proposals will undoubtedly light the way, if we introduce fair use in Australia we are going to confront a problem that the ALRC does not address: the problem of the underlying theory of fair use.

In short, there is no clear theory providing the foundation for fair use in the US. Fair use doctrine is a legislative codification of cases derived over 150 years.[13] That said, there is a golden thread that runs through much of US fair use – speech rights – and the protection of multiple avenues of speech explains a significant number of US cases. Australia does not have either of the two features that characterise the US system: that is, it does not have the same commitment to speech rights and it does not have a large number of court decisions from which one can derive patterns and rules. This means that, even with the sort of guidance that the ALRC proposes, in Australia there will still be a much broader area of penumbral uncertainty than exists within the US.

This is a concern for both sides of the fair use debate. From the copyright holder's side, the existence of uncertainty is a strong tool to argue against the introduction of fair use in Australia. From the potential defendant's side the uncertainty will mean that, unless their use happens to fall within one of the canonical 11 "illustrative uses" or is sanctioned by some recommended code of practice,[14] then the use will be assumed to be unfair. Because the Australian system, unlike the US system, assumes that the loser of a court battle will indemnify the winner, this will mean that potential defendants must be much more risk averse than within the US system. As a result, Australia is unlikely to see many examples of people seeking to use copyright content in innovative ways that may or may not be excused by fair use. The risks will be too high for these users. This will mean that, by and large, the reform agenda of the ALRC Final Report risks frustration. Any Australian fair use defence risks ending up like a slightly enlarged fair dealing defence, just with 11 categories rather than the current five or so.

This problem can be addressed by one stratagem that is easy to express but hard to implement: in any legislative change to fair use, we should articulate clearly the theory that explains the defence. If we know why the defence exists then there is greater certainty about new types of use beyond those that fall outside the ones which we happen to think of now, even if we never have many cases to guide us. The ALRC understandably did not wade very far into the quagmire of fair use theory; it was not set up to perform this task, and it did a remarkable job in the context of the reference it had to deal with, without trying to deal with this almost-intractable meta-problem. But the difficulty will confront Australia going forward. If we do not seek to provide a clear account of the theory of fair use within the legislation, there is a decent chance that the entire purpose of the reform will be stymied and that fair use will become just like the fair dealing exceptions, and the illustrative categories will be a procrustean bed out of which it is almost impossible to escape.

This short article is not the place to advance any preferred theory of fair use. Numerous scholars, commentators, industry groups and stakeholders have advanced their own version of this theory, and if

[11] Hart HLA, "Positivism and the Separation of Law and Morals" (1958) 71 Harv L Rev 593.

[12] ALRC Report, n 1, pp 144-158

[13] Fair use's birth is found in the 19th century *Folsom* decision: *Folsom v Marsh* 9 F Cas 342 (CCD Mass, 1841). The principle was expanded and altered by courts for decades thereafter, but was only codified in 1976 in § 107 of the *Copyright Act 1976* (US).

[14] See, for example, Aufderheide P and Jaszi P, *Reclaiming Fair Use* (University of Chicago Press, 2011).

we move towards implementing the fair use defence they will have an opportunity to be heard on this again. And then it will be for Parliament to make some definitive statement about which theory we should prefer.

At least that is the hope. If Parliament does not provide a theory, then there is not much point to introducing fair use.

TRANSFORMATION

One of the characteristic, and characteristically desirable, features of the US fair use defence is the extent to which "transformative" use by the defendant is an important consideration in excusing infringement. Outsiders to the US system assume that many types of adaptive re-use are available within the rubric of "transformative use", and that it might excuse all manner of innovative and socially useful uses. But this just is not so.

The first factor of § 107 talks about the "purpose and character" of the defendant's use, but the section only specifically refers to the assessment of this use as either for commercial or for non-profit educational uses.[15] The first judicial glosses on this factor suggested that "productive uses" would be excused. That term was never really clearly defined, although some modern authorities suggest that it involved uses that built on the works of others "by adding their own socially valuable creative element".[16] In time the concept of "productive use" was dropped by the courts, and more recently the idea of "transformative use" has come into vogue. Judge Pierre Leval, then of the Southern District, is usually credited with the rise of this idea, developed in an article entitled "Towards a Fair Use Standard".[17] Here Leval adopted the productive use doctrine but modified it, suggesting that the defendant's use will be excused on the basis that where it has a particular character beyond the merely productive, it must also be transformative. As Leval put it:

> The use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original … [If] the secondary use adds value to the original – if the quoted matter is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings – this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.[18]

Immediately influential, the language of the transformative use doctrine was quickly adopted by the Supreme Court in *Campbell v Acuff-Rose Music Inc*,[19] and by numerous lower courts. These decisions are worthy in their own right – society is, after all, immeasurably improved by exposure to a retouched photograph of a naked and pregnant Leslie Nielsen[20] – and they seemed to enshrine the comments by Leval that:

> [t]ransformative uses may include criticizing the quoted work, exposing the character of the original author, proving a fact, or summarizing an idea argued in the original in order to defend or rebut it. They also may include parody, symbolism, aesthetic declarations, and innumerable other uses.[21]

This is a broad and praiseworthy list, but in truth the reality of transformative use is more prosaic and troubling. Generally, the only significant type of work in the US that is sanctioned by transformative use is a parody. This is a very particular and narrow form of transformation, where the defendant uses the plaintiff's work in order to comment explicitly on the original work. The advertisement for *Naked Gun* $33^1/_3$, featuring the naked and pregnant Leslie Nielsen, was only permitted by fair use because the plaintiff's picture of the naked and pregnant Demi Moore is famous

[15] See 17 USC § 107: "Limitations on exclusive rights: Fair use … (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes."

[16] Leaffer M, *Understanding Copyright Law* (5th ed, LexisNexis, 2010) p 490.

[17] Leval P, "Toward a Fair Use Standard" (1990) 103 Harv L Rev 1105.

[18] Leval, n 17 at 1111.

[19] *Campbell v Acuff-Rose Music Inc* 510 US 569 (1994).

[20] *Leibovitz v Paramount Pictures Corp* 137 F 3d 109 (2nd Cir, 1998).

[21] Leval, n 17 at 1111.

and instantly recognisable as the work which the defendant's work is referencing. More importantly, the defendant's amusing picture was interpreted as commenting on the fatuity and self-regard of the Moore picture, and it is this latter aspect that makes it a parody, and not a satire. Like any other form of commentary, a parody uses the original work to comment on it, whereas a satire "merely" uses the original work to produce a work that comments on some other thing.[22]

This is a vitally important distinction within the US system and it structures vastly more of the judicial discourse than one might first imagine. In the foundational case of *Campbell*, the Supreme Court was careful to frame 2 Live Crew's interpretation as a parody, not as any other type of transformative use. The truly odd thing about the *Campbell* decision is that 2 Live Crew's song is not much of a parody of Roy Orbison's "Pretty Woman". It is certainly true that the rap version references Orbison's original, but the majority of the commentary in the rap version is about life on the street, and only really comments on the "sappiness" of the Orbison version in passing.

The fact that the *Campbell* court had to engage in linguistic gymnastics to fit the defendant's song into the category of "parody" tells us a lot about the US conception of transformativeness. It is not actually about transformation and productive reuse, but about commentary and free speech. The court in *Campbell* and all of the courts subsequently dealing with parodies want to ensure that copyright does not squash the ability of people to comment on other people's works. If it is necessary to use a plaintiff's work to comment on it, then of course this should be a fair use that is allowed. This is unremarkable, even within Australia where we have a fair dealing exception for parody and satire. But the important thing to note in the US system is that the cases which actually deal with "transformative use" are mostly confined to parodies, and only parodies.

Even within those cases that deal with parody, courts are extremely careful to limit the nature and extent of the defendant's use. In *Walt Disney Productions v Air Pirates*, the court dealt roughly with defendants who published a couple of counterculture comics that showed the Disney-owned characters in various unflattering situations, notably Mickey and Minnie Mouse having sex, and Mickey dealing drugs.[23] Although the Ninth Circuit recognised that the comics were specifically referencing and commenting on the plaintiff's works – and therefore they must qualify as parodies – it said that the defendant was only entitled to use the minimum amount of the plaintiff's work necessary to "conjure up" the parodic reference.[24] To take any more than this minimum amount pushes the defendant out of the protection of fair use – and thus the two comic books in issue in *Air Pirates* were not excused liability.

The issue is more stark if the work is not a clear parody, but rather represents a significant transformative use that is not intended as an explicit comment on the original. The copyright litigation history of Jeff Koons is unquestionably the best guide we have to this problem. Koons is a famous

[22] For an explanation of the difference, see the discussion in *Dr Seuss Enterprises LP v Penguin Books USA Inc* 109 F 3d 1394 at 1400-1401 (9th Cir, 1997) about the *Campbell* case:

> We first examine the definition of parody. The parties disagree over the appropriate interpretation of *Acuff-Rose*'s holding with respect to the definition of parody under the fair use exception. The Supreme Court of the United States in the *Acuff-Rose* case held that a rap group's version of Ray Orbison's song "Oh, Pretty Woman" was a candidate for a parody fair use defense. Justice Souter, the opinion's author, defined parody:
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> > For the purposes of copyright law, the nub of the definitions, and the heart of any parodist's claim to quote from existing material, is the use of some elements of a prior author's composition to create a new one that, at least in part, comments on that authors works … If, on the contrary, the commentary has no critical bearing on the substance or style of the original composition, which the alleged infringe merely uses to get attention or to avoid the drudgery in working up something fresh, the claim to fairness in borrowing from another's work diminishes accordingly (if it does not vanish), and other factors, like the extent of its commerciality, loom larger.
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> The Court pointed out the difference between parody (in which the copyrighted work is the target) and satire (in which the copyrighted work is merely a vehicle to poke fun at another target): "Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim's (or collective victims) imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing."

[23] *Walt Disney Productions v Air Pirates* 581 F 2d 751 (CA Cal, 1978).

[24] *Walt Disney Productions v Air Pirates* 581 F 2d 751 at 758 (CA Cal, 1978).

appropriation artist whose work is the subject of retrospectives in world-famous museums and commands multimillion dollar prices at auction. However, his record in the courts on fair use is much less impressive – two losses and one narrow win – although it is extremely instructive. The fair use litigation history of Koons demonstrates the disconnect between what ordinary people would think of as transformative use and how the US courts interpret this idea.[25]

As an "appropriation" artist, Koons works with found objects that he reinterprets in novel ways. This type of activity has a venerable history, obviously evident in all forms of collage art; and it has found expression most obviously in Marcel Duchamp's ready-mades of the early 1900s, the Dadaists and Surrealists' found objects, Joseph Cornell's memory boxes, Andy Warhol's Campbell's soup cans, and Robert Rauschenburg's combines of the Pop era. Koons is one of the highest profile current artists of this stripe, sharing the honors with Sherrie Levine, Richard Prince and Shepard Fairey – each of whom have been the subject of copyright infringement claims as a result of their repurposing of other people's copyright works.

The three *Koons* cases involved similar actions by the artist: he took a work by a copyright owner without permission, and radically reimagined that work as a new work of art. In *Rogers v Koons*, he took a cheesy photograph of a couple holding eight adorable puppies and remade it as a creepy wooden sculpture as part of his "Banality" show; in *United Feature Syndicate Inc v Koons* he took the cartoon character of "Odie" and remade it as a sculpture (also for his "Banality" show); and in *Blanch v Koons*, he cut out a photograph of a woman's legs found in *Allure*, a fashion magazine that was advertising Gucci shoes, blew it up to billboard size, and superimposed it on other legs to produce a painting called "Niagara".[26] In each case Koons was transforming the plaintiff's work, in the sense that he was using each of them to generate a new work with a completely different meaning from the original, and he was sufficiently successful at this process of transformation that his works were and are vastly more collectible and valuable than any of the works he appropriated. However, in the first two cases, the courts said that this sort of transformation did not fall within the bounds of fair use, in part because the use was not parodic and so his use was unnecessary for the purpose of comment on the original. That is, the courts in those cases said that Koons' work was not commenting on the plaintiffs' works, instead they were commenting on society and – in the case of the show from which both those cases derived – on the banality of modern life. His works were therefore satires, and it was strictly unnecessary to use the plaintiff's work to comment in this way; he could have commented in this way without using their work, or if he had wanted to use their work then he could have licensed it from them. Hence, Koons' work was not transformative in the way that the court sanctioned.

In the third case, *Blanch*, Koons had taken less of the plaintiff's work, and he also struck a more accommodating court. He also had learned from the lessons of the earlier cases and did not seek to stretch the definition of parody to this type of appropriation; instead he argued that his work had a different purpose and character from Blanch's photograph, and that it was important to his purpose as an artist to use this type of image:

> The ubiquity of the photograph is central to my message. The photograph is typical of a certain style of mass communication. Images almost identical to them can be found in almost any glossy magazine, as well as in other media. To me, the legs depicted in the Allure photograph are a fact in the world, something that everyone experiences constantly; they are not anyone's legs in particular. By using a fragment of the Allure photograph in my painting, I thus comment upon the culture and attitudes promoted and embodied in Allure Magazine. By using an existing image, I also ensure a certain authenticity or veracity that enhances my commentary – it is the difference between quoting and paraphrasing – and ensure that the viewer will understand what I am referring to.[27]

[25] In truth, all of the cases were brought in New York, so perhaps it would be more accurate to say that the trio of *Koons* cases demonstrates only how the Second Circuit Court of Appeal interprets transformative use. But the Second Circuit tends to be the most permissive on this topic, and other circuits are very unlikely to give a more nuanced interpretation of transformative use.

[26] *Rogers v Koons* 960 F 2d 301 (2nd Cir, 1992); *United Feature Syndicate Inc v Koons* 817 F Supp 370 (SDNY, 1993); *Blanch v Koons* 467 F 3d 244 (2nd Cir, 2006).

[27] See Kattwinkel LJ, "Legalities 30: Jeff Koons and Copyright Infringement", *OW&E*, http://www.owe.com/resources/legalities/30-jeff-koons-copyright-infringement.

This argument seems to have been accepted by the court, and this, combined with the relatively minor amount of taking and the absence of any effect on the market for the photographer's work, seems to have carried the day.

The most recent case on appropriation art does give us some hope that the conception of transformative use is broadening in the US. Another famous appropriation artist Richard Prince eventually prevailed in a dispute over his use of a number of photographs taken by a French photographer Patrick Cariou.[28] After losing badly at the District Court level, the Second Circuit excused Prince's taking of the images in most of the cases, finding that they were excused by fair use. Focusing on the effect on the observer, the court said that most of Prince's reworkings of Cariou's photographs "have a different character, give Cariou's photographs a new expression, and employ different aesthetics with creative and communicative results distinct from Cariou's".[29] Hence these were transformative.

This case probably is not indicative of a change in the Second Circuit, or even a sea change more generally, and time will tell whether this becomes a general rubric for this type of art. But even if this is so then it is almost certainly confined to the narrow question: "Is appropriation art transformative?" Put in these terms, it is almost impossible to imagine that this is an open question, and it is startling that so many cases of this type could have been so strangely decided in US courts. That is, it is strange to consider that most of the appropriation art cases have been decided through the lens of parody, when this is such a poor fit for the approach of those artists.

What is certainly true – no matter what the courts' evolving approach to appropriation art may be – is that satirical works (that do not happen to be produced by multimillion dollar artists) are not fair use in the US. Works that reuse another work not to comment on them, but rather merely as an amusing reference point for the audience, simply will not be considered fair use. Thus, in the so-called "Cat Not In The Hat" case, the defendant used Dr Seuss' famous *Cat in the Hat* book as a reference point to comment on the OJ Simpson trial, but because the defendant did not actually need to use Dr Seuss' work to satirise the trial, this use was adjudged non-transformative and infringing.[30]

We can say then that, even with the boundaries of parody and satire, the US fair use defence is remarkably constrained. Outside the category of obvious parodies there are a small number of cases within the transformation canon, but these are very unusual, and although they are often the subject of scholarly discussion they do not usually lead to the development of a body of new law on that type of use. It is probably true to say that there is a consensus that the use of copyright works by search engines can be excused by fair use if the defendant rescales the work, or uses it for a completely different function.[31] However, outside search engine repurposing and explicit parodies, transformative use is a judicial doctrine more honored in the breach than the observance.

Why does this matter? Specifically, why does it matter if Australia is to enact a fair use defence? In reviewing the approach to transformativeness, three lessons emerge. First, most obviously and uncontroversially, we should not believe that the US fair use jurisprudence on transformative use will provide much useful guidance on protecting parodic and satirical works. Australia already has a clear fair dealing exception for both parody and satire and, for all the concerns about the problems with the fair dealing exception, it is clear that the Australian exception is actually broader than the US approach. The current exception is not broad enough, and it would be regrettable to enact a US approach expecting it to be wider, when in fact it is much narrower than we have. More than this, it is

[28] *Cariou v Prince* 714 F 3d 694 (2nd Cir, 2013).

[29] Five of the images were remanded to the Southern District for consideration and the case eventually settled on undisclosed terms.

[30] *Dr Seuss Enterprises LP v Penguin Books USA Inc* 109 F 3d 1394 (9th Cir, 1997).

[31] *Kelly v Arriba Soft Corp* 336 F 3d 811 (9th Cir, 2003); *Perfect 10 Inc v Amazon.com Inc* 508 F 3d 1146 (9th Cir, 2007). This was also similarly found in non-computer contexts in the *Bill Graham* case, which involved similar rescaling, albeit in book form. See *Bill Graham Archives v Dorling Kindersley Ltd* 448 F 3d 605 (2nd Cir, 2006).

clear that US judges do not really understand the social value created by reimagined works of satire, and instead they are locked in a linguistic battle over what is satirical and what is parodic. It would be a terrible idea to import this into our system.

Secondly, Australian courts are going to need some legislative guidance as to what "transformative use" means, and what are socially valuable, transformative communicative acts. This is a very specific instance of the more general point expressed in the first part of this article. That is, if we are to make sense of transformative use, we need a theory of what this should mean. We could do worse than start with Leval's definition given above, although there are numerous scholarly works that have explicated various approaches to this topic, and which provide interesting explanations of what sorts of transformations should be acceptable and why. What is clear is that Australia should not adopt the US judicial approach to transformative use. This approach is internally incoherent, and impossible to parse. It must be the case that there are some socially valuable transformative uses that are not parodies, search engine thumbnails, or (maybe) certain types of appropriation art made by famous artists. But you would never know this from the US transformative use canon. We can do better, but it will need a theory of transformative use that neither Australian courts nor the US courts have managed to come up with yet.

Finally, and related to this last point, we need to recognise the central role that free speech has played in the US understanding of fair use, and especially transformative use. Much has been written about the connection between the First Amendment and fair use, but less evident is how private speech concerns are wrapped up in fair use. For a start, at least three of the enumerated categories of fair use in § 107 explicitly involve commentary and speech: as the preamble to § 107 reads "the fair use of a copyrighted work … for purposes such as criticism, commentary, new reporting … is not an infringement of copyright". This is not an accident: within the judicially established categories of transformative uses, we find two types of uses, parodies and search engine thumbnails, which explicitly excuse the defendant's appropriation because it is necessary to use the plaintiff's work to describe it (thumbnails) or comment on it (parodies).

In large part, therefore, US law enshrines a theory of transformative use that is grounded in free speech – the right to use other's work to talk about it and them – not some other important value, such as increasing communication in society, or expanding access to knowledge, or providing for generational equity in the means of communicative production.[32] Reasonable people can differ about the importance of these different values, and time and space forbid any useful examination of how we might make the appropriate determination of which one to apply to the Australian scene. The important point here is to understand that the US system emphasises one value in communicative transformation, and it is not a value that is central to the information policy that is enshrined (in part) in Australia's copyright system. In following US law on transformative use, we need to be careful that we understand and are appropriately critical of the framework in which US judges understand and interpret transformative uses.

MARKETS

We have all seen the ridiculous internet banner ads that start with the line "You'll be amazed by this one simple trick". These ads promise to startle you with a simple way to lose weight, grow a six pack, get a girl, and so on. It turns out that fair use in the US is like this: there is one simple trick that ensures, more or less, that the plaintiff can win any fair use case.

The "one simple trick" focuses on the fourth factor of § 107, the one that examines the effect of the defendant's use on the market for the plaintiff's work. Courts in the US routinely indicate that this is the most important factor,[33] and this makes perfect sense historically and economically. *Folsom v*

[32] For example, if we were to have a copyright system that improved access to knowledge, then we would create exceptions that accounted for different types of content, and allowed some types of educational uses without remuneration. If we were concerned about generational equity, we would develop a system that had shorter protection periods for certain works that were necessary for the flourishing of future generations. And so on.

[33] Leaffer, n 16, p 500.

Marsh, the 1841 genesis of US fair use law, was concerned with a biography of George Washington where the defendant had copied the letters of Washington from the plaintiff's work, adding his own material by way of transitions between the letters. However, it was in the nature of biographies of the time that the defendant's work was a complete substitute for the plaintiff's work – no consumer would buy both biographies featuring the letters of Washington – and so, in economic terms, allowing publication of the defendant's work would be contrary to the overall purposes of copyright. It would reduce the incentive of the first creator, and the second creator was not in fact contributing any new content to society. This is an altogether useful limitation and one that should be uncontroversial: if a defendant's work directly substitutes for the plaintiff's work, then it is really hard to suggest that the defendant's use is fair.

When the fair use doctrine was codified in § 107 of the *Copyright Act 1976* (US) the concern about market effects extended beyond simple substitution of one work for another, and so the fourth factor is now defined to include not just the existing market for the work but "the potential market for or value of the copyrighted work". Courts have made much of this, and in the most extreme cases have conjured markets out of thin air.

It turns out that inventing imaginary markets is easy. The late 20th century saw a huge expansion in intellectual property in part because of the emergence of new devices for extracting value from the intellectual property. This is most obvious in licensing, where the owner grants someone else a right to use the intellectual property, limited in geographic scope, or in duration, or in relation to a particular type of product or market. It is possible now, therefore, to license the distribution of a copyright work to one person in Australia, another in France, and another in Thailand. The intellectual property holding company for the New York Yankees can license its marks to one person for application to t-shirts, to another for bed sheets, and so on. And, of course, each of these segmented rights can be granted only for a certain time, reverting to the owner on expiry, or passed on to another.[34]

In fair use cases, this new flexibility in licensing law and practice has worked in favour of copyright plaintiffs by allowing them to redefine the effect of a defendant's work on the "potential market" for their works. It is not necessary for the plaintiff to establish a direct substitution effect, instead, the plaintiff need only show that there is a *potential* market that he or she is unable to exploit because of the defendant's work. The combination of licensing practice and the expression "potential markets" is a heady one for plaintiffs' attorneys, allowing them to invent imaginary markets of imaginary licences for their client's work. The defendant has created a book of multiple-choice quizzes based on the plaintiff's long-running television series?[35] Well, surely there *must* be a potential market of "multiple-choice quiz book" licences for the plaintiff's work that the defendant has bypassed, thereby making the defendant's use impermissible. The fact that no-one could have identified this market ahead of the defendant's actions is, of course, neither here nor there.

Judges have bought this argument more times that you would imagine. Sometimes, of course, they are doing this because they do not like the idea of the free-riding defendant, and have to find a pretext to find that there is no fair use. So they decide that the defendant has usurped this fictional "unrecognised" market. Other times the judges possibly believe that there really is a market; but whatever the reason judges decide in this way, this approach is invidious. In a number of remarkable cases, the market that the defendant has bypassed is, in fact, the defendant. Consider the case of *Rogers v Koons*, mentioned above. The court in that case said that the fourth factor weighed against Koons because he had taken away Rogers' potential market to license his work for fine art sculptures – a market that presumably consisted of Koons and Koons only, since we have yet to see a proliferation of high-end sculptures of Rogers' puppy pictures. This is a remarkably troubling use of the concept of a "potential market", to create a "market" for licences out of the one instance of the defendant's use.

[34] These interests are also subject to securitisation and agglomeration, and there is an interesting story to be told, but not explored in this article, about the relationship of financial markets and mechanisms in the development of intellectual property over the last 30 years. The emergence of patent assertion entities like Intellectual Ventures and trademark holding entities like Kering and LVMH could not have occurred without a change in valuation and financing of intellectual property assets.

[35] *Castle Rock Entertainment Inc v Carol Publishing Group* 150 F 3d 132 (2nd Cir, 1998).

More generally, there is a troubling circularity in these invented markets. This can most easily be seen in the oft-cited *American Geophysical Union v Texaco Inc* case.[36] There, the court was confronted with a corporate defendant, Texaco, whose scientists had photocopied a number of articles from the plaintiff's journal that was stored in the defendant's scientific library. Though the defendant had purchased multiple copies of the journals, and the defendant's scientists had stored their copies in their offices for ease-of-access purposes (and could easily have requested the legal versions from the library), nonetheless the court concluded that the defendant had bypassed a potential market of the plaintiff's work. The market here was for licensed reproductions of individual articles. The conceptual headscratcher here is that this market only exists if the court concludes that Texaco's use was not fair – if Texaco's use was fair then there would be no need for licensed reproductions of articles, and the market would never have existed. Thus, by imagining that there must be a market for licensed reproductions of the articles, the court conjured it into existence and automatically determined that the defendant's use must not be fair. Hey presto!

Of course, plaintiffs were wise to this trick even 20 years ago when *American Geophysical* was decided, and they cleverly created institutions to bolster the claim that their potential markets existed. In the case of *American Geophysical* scholarly publishers created the Copyright Clearance Center, an organisation devoted to licensing reproductions of journal articles. Thus the scholarly publishers could argue, hands on their hearts, that there was a potential market that Texaco had intruded upon: "Look! There is the Copyright Clearance Center to prove it." Of course, if *American Geophysical* had been decided the other way, the Copyright Clearance Center would have had precisely no reason for existence, and would have disappeared that day.

What does this tell us about the US system and what are the lessons here for any Australian implementation of fair use? Well, the easy answer is that if Australia adopts the US "potential market" test then we are going to end up with a system that is easy to game by plaintiffs, and which does not really enshrine the fundamental social balance underlying fair use, a balance that the ALRC has endorsed. If we are to enact a fair use defence then we will presumably have a factor that requires analysis of the market for the plaintiff's work (and of course the ALRC has proposed as much). It is absolutely the case that direct substitution effects should be something that weighs heavily against the defendant. But any adoption of the "potential market" standard must come with stronger guidance as to what that means, and should not allow for the circular approach that the US courts have come up with.

As with everything else in this article, the main observation is that the American system is a useful but flawed model, and we should learn the lessons that 173 years have taught the Americans.

CONCLUSION

"I come to praise Caesar, not to bury him."

This article should not be read as an attack on fair use or on the ALRC. But the American experience of fair use is mixed, and the life of the fair use law has followed a strange sort of logic. We have to understand this logic before we try to implement it.

Copyright is broken. We should try to fix it. One aspect of this task is to enact a fair use defence in Australia; but no-one should be under any misapprehensions about how tricky this is going to be. This article discusses three aspects of the task ahead of us. There will be many more.

[36] *American Geophysical Union v Texaco Inc* 60 F 3d 913 (2nd Cir, 1994).